

# LEWES DISTRICT COUNCIL

AUDIT PLAN TO THE AUDIT AND STANDARDS COMMITTEE  
Audit for the year ending 31 March 2015

March 2015

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## EXECUTIVE SUMMARY

We are pleased to present our Audit Plan for the year ending 31 March 2015. This plan summarises the work that we propose to undertake in respect of our audit of Lewes District Council for the 2014/15 financial year.

### Significant Risks

Our audit is designed to respond to significant risks and identify where we intend to focus our resources in providing our opinion on the financial statements and our value for money conclusion. Summarised below are the significant risks that impact on our audit of which we are currently aware:

FINANCIAL STATEMENTS	SUMMARY OF SIGNIFICANT RISKS
Management override	Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk including by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.
Revenue recognition	Auditing standards presume that there are risks of fraud in revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the stated accounting policies or from an inappropriate use of estimates in calculating revenue.
Accounting for non-current assets	<p>The Council has recently implemented a new system for accounting for non-current assets (known as 'RAM'), which will be fully implemented for the first time during 2014/15. Accounting for non-current assets is a particularly complex area within local government, and there is an elevated level of inherent risk associated with any change to systems and processes.</p> <p>Our audit of non-current assets last year identified errors in accounting for the de-recognition of components of council dwellings being replaced and in the removal of accumulated depreciation balances upon revaluation of Property, Plant and Equipment. There is a risk errors continue to be made in these areas.</p>

FINANCIAL STATEMENTS (CONTINUED)	SUMMARY OF SIGNIFICANT RISKS
Related party transactions	The Council is putting in place a process for the collection and review of annual declarations from Members and senior officers in respect of outside interests. While the Council does maintain a register of interests, controls are being strengthened to ensure it is accurate and up to date. There is a risk that related party transactions may not be identified and adequately disclosed while new processes are being established.
USE OF RESOURCES	SUMMARY OF SIGNIFICANT RISKS
Financial resilience	Delivering the savings required by the Medium Term Financial Strategy and maintaining financial resilience in the light of reduced Government funding, demographic changes and the risks and uncertainties identified for the future delivery of services present risks to the continuing financial resilience of the Council.

### Fees

Our Planning Letter for the 2014/15 year highlighted the fee for the audit was expected to be £60,990. The proposed audit fee for the year has increased to £61,890 plus VAT, which is the scale fee set by the Audit Commission. The fee is £900 higher because auditors no longer undertake certification work on the national non domestic rates return, following the introduction of new arrangements for collecting and distributing business rates, and further audit work is now required in this area as part of the financial statements audit.

The proposed fee for the certification of claims and returns is £9,530 plus VAT, which is the scale fee published by the Audit Commission. However, the 2013/14 certification fee has not yet been finalised, we will discuss with officers whether the certification scale fee for 2014/15 should be adjusted.

## Key outputs

The key reports, opinions and conclusions from the audit will be:

REPORT	DATE
Report on any significant deficiencies in internal controls, if required, based on the results of our interim audit visit	June 2015
Final report to those charged with governance	September 2015
Independent auditor's report including: <ul style="list-style-type: none"><li>• Opinion on the financial statements</li><li>• Value for money conclusion</li><li>• Certificate</li></ul>	By 30 September 2015
Assurance statement on the Whole of Government Accounts return	By 2 October 2015
Summary of findings from the audit in the Annual Audit Letter	October 2015
Report on the results of our grant claims and returns certification work	February 2016

# SCOPE OF THE AUDIT

## Purpose of the audit plan

The purpose of this audit plan is to:

- Ensure that there is mutual understanding of the respective responsibilities relating to the audit
- Provide you with an overview of the planned scope of the audit for the year ending 31 March 2015
- Ensure that the areas of potential significant risk of material misstatement which we have identified are consistent with the areas which you perceive to be the key areas and to promote effective two-way communication between us.

We will also provide a report to management and those charged with governance on the findings of the audit which will focus on the significant matters arising from the audit of the Council regarding internal control, financial governance and reporting and accounting arrangements. We aim to provide management with clear recommendations that will add value to the Council.

## Code audit

The scope of the audit is determined by the Audit Commission's Code of Audit Practice for Local Government (2010) (the 'Code'), which covers two areas: providing an opinion on the financial statements, and reviewing the arrangements for securing economy, efficiency and effectiveness in the use of resources (value for money conclusion).

## Respective responsibilities

Our responsibilities, as auditors, in relation to the audit of the financial statements and other Audit Commission requirements are set out below. The audit of the financial statements does not relieve you of your responsibilities which are outlined in the Statement of Responsibilities of Auditors and Audited Bodies (2010) available from the Audit Commission's website.

Auditing Standards require auditors to communicate relevant matters relating to the audit to those charged with governance. Relevant matters include issues on auditor independence, audit planning information and findings from the audit.

We will communicate matters of governance interest that have come to our attention as a result of the performance of the audit. Communication may take the form of

discussions or, where appropriate, be in writing. The audit is not designed to identify all matters that may be relevant to you.

Our contacts for communications will be the Chief Finance Officer (the Director of Corporate Services), the Head of Finance (who is the Deputy Chief Finance Officer) and the Audit and Standards Committee. When communicating with the Audit and Standards Committee we will consider all individuals representing those charged with governance as informed and our responsibilities for communicating relevant matters will be discharged.

## Financial statements

At the conclusion of the financial statements audit we give our opinion on the financial statements, including whether:

- they give a true and fair view of the financial position at the year end and the expenditure and income for the year
- they have been prepared properly in accordance with relevant legislation and applicable accounting standards

We also provide an opinion on whether the information given in the Explanatory Foreword is consistent with the financial statements.

We report by exception if we are unable to satisfy ourselves that the Annual Governance Statement is not inconsistent with our knowledge.

As part of our audit we obtain an understanding of the Council's system of internal control sufficient to plan the audit. We assess the adequacy of the design of specific controls that respond to significant risks of material misstatement and evaluate whether those controls have been implemented. Where we intend to place reliance on particular controls for the purposes of our audit, we will carry out procedures to test the operating effectiveness of those controls and use the results of those procedures to determine the nature, timing and extent of further audit procedures to be performed.

In order to achieve an efficient and cost effective audit, we aim to work closely with Internal Audit to minimise duplication and the overall level of audit resource input.

We have planned the audit on the basis that we will be able to place full reliance on the work of Internal Audit where they intend to provide assurance over key controls within the financial systems.

We will communicate to management any deficiencies in internal control identified during the audit. Where those deficiencies are significant, we will also communicate to those charged with governance.

## Misstatements due to fraud

The primary responsibility for ensuring that your internal control frameworks are robust enough to prevent and detect fraud and corrupt practices lies with management and the Audit and Standards Committee.

We have a responsibility to consider specifically the potential risk of material misstatement of your financial statements as a result of fraud and error, including the risk of fraudulent financial reporting. We have discussed possible risk of material misstatement arising from fraud with officers including the Chief Finance Officer, the Head of Finance and the Head of Audit and Performance.

We will write to the Chairman of the Audit and Standards Committee to request confirmation of how the Committee oversees management processes to identify and respond to the risk of fraud, and whether there is knowledge of any actual, suspected or alleged frauds affecting the Council other than those reported by management.

Please let us know if there are any other actual, suspected or alleged instances of fraud of which you are aware.

For all fraud risks, and for any actual frauds that have been identified and we have been informed of, we will consider the possible impact on your financial statements and our audit programme.

## Materiality and triviality

Materiality is the expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. In carrying out our work we will apply an appropriate level of materiality and as such the audit cannot be relied upon to identify all potential or actual misstatements.

For planning purposes, we have set materiality at £1.1 million (2% of budgeted gross expenditure in the Comprehensive Income and Expenditure Statement excluding non-recurrent expenditure).

For reporting purposes, we consider misstatements of less than £22,000 to be trivial, unless the misstatement is indicative of fraud. We are required to bring to your attention unadjusted audit differences that are more than trivial that the Audit and Standards Committee are required to consider and we will request that you correct them.

## Use of resources

The Code requires auditors to issue a conclusion on whether the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

This is based on the following two reporting criteria:

- The organisation has proper arrangements in place for securing financial resilience; the organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness; the organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We will plan a programme of use of resources audit work based upon our risk assessment.

## Whole of Government Accounts

Local authorities are required to prepare information to allow HM Treasury to prepare consolidated Whole of Government Accounts (WGA) based on the statutory financial statements.

The WGA return is audited in accordance with Audit Commission specified procedures. We provide an assurance report to the National Audit Office to confirm that the WGA return is consistent with the audited financial statements and that it is properly prepared.

## Certification of grant claims and returns

As an agent of the Audit Commission we will undertake a review of grant claims and returns in accordance with the certification instruction issued by the Audit Commission. We express a conclusion as to whether the claim or return: is in accordance with the underlying records (claims and returns above the minimum level and below the threshold); or is fairly stated and in accordance with the relevant terms and conditions (claims and returns over the threshold).

## Engagement partner

Robert Grant is the engagement partner and is the person in the firm who is responsible for the audit engagement and its performance and for the report that will be issued on behalf of the firm.

We aim to provide a high quality of service to you at all times. If, for any reason or at any time, you would like to discuss how we might improve the service, or if you are in any way dissatisfied, please contact Robert Grant in the first instance. Alternatively you may wish to contact our Managing Partner, Simon Michaels. Any complaint will be investigated carefully and promptly.

If you are not satisfied you may take up the matter with the Institute of Chartered Accountants in England and Wales (“ICAEW”).

In addition, the Audit Commission’s complaints handling procedure is detailed in their leaflet “How to complain: What to do if you want to complain about the Audit Commission or its appointed auditors”, which is available on their website <http://www.audit-commission.gov.uk/about-us/contact-us/complaints>

## Local Audit and Accountability Act 2014

The Act received Royal Assent on 30 January 2014. The Act makes it possible for the Audit Commission to close, in line with Government expectations, on 31 March 2015.

There will be a new framework for local public audit, due to start after the Audit Commission’s current contracts with audit suppliers end in 2016/17, or potentially in 2019/20 if all the contracts are extended. A transitional body will oversee the contracts in the intervening period. The transitional body is the Public Sector Audit Appointments Limited and is an independent, private company created by the Local Government Association.

Several of the Audit Commission’s functions will continue after its closure. The Local Audit and Accountability Act gave the Comptroller and Auditor General a duty to prepare and issue Codes of Audit Practice and guidance to auditors; and a power to carry out examinations into the economy, efficiency and effectiveness with which relevant authorities have used their resources.

The Act also provides for the Audit Commission’s data matching powers, and therefore the National Fraud Initiative, to transfer to the Cabinet Office. The government has announced that the Commission’s counter-fraud function will transfer to a new public sector ‘Counter Fraud Centre’ to be established by the Chartered Institute of Public Finance and Accountancy.

## Independence and objectivity

We are required to communicate to those charged with governance, at least annually, all relationships that may bear on the firm’s independence and the objectivity of the audit engagement partner and audit staff.

In relation to the audit of the financial statements for Lewes District Council for the financial year ending 31 March 2015, we are able to confirm that the Audit Commission’s requirements in relation to independence and objectivity have been complied with and we are not aware of any relationships that would affect our independence. Should this change we will update you accordingly.

## RISK ASSESSMENT

We are committed to targeting work to where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. The determination of significant risks is a matter for auditors' professional judgement.

For each of the significant risks identified, we consider the arrangements put in place to mitigate the risk and plan our work accordingly.

If you consider there to be other significant risks of material misstatement in the financial statements or, arrangements for securing economy, efficiency and effectiveness in the use of resources, whether due to fraud or error, please let us know. Summarised below are the significant audit risks that impact on our audit of which we are currently aware.

FINANCIAL STATEMENTS SIGNIFICANT AUDIT RISKS			
RISK	RISK DETAIL	ACCOUNTS AREA AND ASSERTIONS	AUDIT RESPONSE
<b>MANAGEMENT OVERRIDE</b>	Auditing standards presume that a risk of management override of controls is present in all entities and require us to respond to this risk by testing the appropriateness of accounting journals and other adjustments to the financial statements, reviewing accounting estimates for possible bias and obtaining an understanding of the business rationale of significant transactions that appear to be unusual.	Financial statement level risk across all account headings and assertions.	We will carry out audit procedures to review significant journals and other adjustments in preparing the financial statements, review the reasonableness of assumptions used by management when including accounting estimates, and obtain an understanding of unusual transactions.
<b>REVENUE RECOGNITION</b>	Auditing standards presume that there are risks of fraud in revenue recognition. These risks may arise from the use of inappropriate accounting policies, failure to apply the stated accounting policies or from an inappropriate use of estimates in calculating revenue.	Existence, completeness and accuracy of NNDR income, housing rent income, car parking income, and sundry income.	We will substantively test a sample of income received and debtor accruals to ensure that accounting policies have been correctly applied in determining the point of recognition of income.
<b>ACCOUNTING FOR NON-CURRENT ASSETS</b>	The Council has recently implemented a new system for accounting for non-current assets (RAM), which will be fully utilised for the first time during 2014/15. Accounting for non-current assets is a particularly complex area within local government, and there is an elevated level of inherent risk associated with any change to systems and processes. Our audit of non-current assets last year identified errors in accounting for the de-recognition of components of council dwellings being replaced and in the removal of accumulated depreciation balances upon revaluation of Property, Plant and Equipment. There is a risk errors continue to be made in these areas.	All assertions relating to non-current assets, including property, plant and equipment, intangibles, heritage assets and investment properties.	We will carry out focussed audit procedures on all year-end balances and movements relating to non-current assets. We will also look at the processes and controls surrounding the migration of data to the new fixed asset system, and the controls put in place by the Council to ensure that the information produced by the system is complete and accurate.



FINANCIAL STATEMENTS SIGNIFICANT AUDIT RISKS (CONTINUED)			
RISK	RISK DETAIL	ACCOUNTS AREA AND ASSERTIONS	AUDIT RESPONSE
RELATED PARTY TRANSACTIONS (RPT)	The Council is putting in place a process for the collection and review of annual declarations from Members and senior officers in respect of outside interests. While the Council does maintain a register of interests, controls are being strengthened to ensure it is accurate and up to date. There is a risk that related party transactions may not be identified and adequately disclosed while new processes are being established.	Completeness, accuracy and presentation of related party transactions.	As part of our audit we will carry out focussed substantive procedures on related party transactions, including detailed reviews of Council and Committee minutes, the Council's register of interests, inquiries of management, use of third-party data sources (such as Companies House and Charity Commission searches), and agreement of related party transactions disclosed by the Council back to supporting documentation.  We will also review the arrangements established by the Council to ensure the completeness, accuracy and presentation of RPT disclosures by Members and compliance with the requirements of the Cipfa Code of Practice.
USE OF RESOURCES SIGNIFICANT RISKS			
RISK	RISK DETAIL	AUDIT RESPONSE	
FINANCIAL RESILIENCE	Delivering the savings required by the Medium Term Financial Strategy and maintaining financial resilience in the light of reduced Government funding, demographic changes and the risks and uncertainties identified for the future delivery of services present risks to the continuing financial resilience of the Council.	We will review the Council's Medium Term Financial Strategy to assess the reasonableness of the assumptions therein, and how the Council is addressing financial pressures.	

## AUDIT TIMETABLE

The timetable for key reports, opinions and conclusions from the audit will be:

OUTPUT	DATES
<b>FINANCIAL STATEMENTS</b>	
Review of internal controls	April 2015
Final audit visit	July - August 2015
Audit report covering: <ul style="list-style-type: none"> <li>• 'True and fair' opinion on the financial statements</li> <li>• Information in the Statement of Accounts being consistent with auditor's knowledge</li> <li>• Annual governance statement is prepared in accordance with guidance and not inconsistent with auditor's knowledge</li> </ul>	Clearance meeting to be held late August 2015  Audit Report to be issued by 30 September 2015
Opinion on the Whole of Government Accounts return.	By 2 October 2015
<b>USE OF RESOURCES</b>	
Review of economy, efficiency and effectiveness	January - August 2015
Value for money conclusion	By 30 September 2015
<b>GRANTS</b>	
Audit of grant claims and returns	July to November 2015
<b>REPORTING</b>	
Report on any significant deficiencies in control (if required)	June 2015
Final report to those charged with governance	September 2015
Annual Audit Letter	October 2015

We will agree specific dates for our visits with officers in advance of each part of our programme, and we will work closely with officers during the year to ensure that all key deadlines are met. We will also meet regularly with senior officers to discuss progress on the audit and obtain an update on relevant issues.

The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the council and may not be quoted nor copied without our prior written consent. No responsibility to any third party is accepted.

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